

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Mier Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Mier Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Revenue from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for service charges included in the annual financial statements, as all consumers were not billed during the current and prior year. I was unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any adjustment relating to the services charges stated at R 2 896 179 (2015: R2 680 118) in the annual financial statements was necessary.

Trade receivables from exchange transactions

7. The municipality did not charge interest on arrear consumer accounts, as required by the MFMA section 64. I was unable to quantify the amount of the misstatement on the annual financial statements for the current and prior year as it was impracticable to do so, consequently trade receivables from exchange transactions are understated with an undetermined amount. Additionally, there is a consequential impact on revenue from exchange transactions and accumulated surplus for the period.

Trade receivables from non-exchange transactions

8. The municipality did not charge interest on arrear consumer accounts, as required by the MFMA section 64. I was unable to quantify the amount of the misstatement on the annual financial statements for the current and prior year as it was impracticable to do so, consequently trade receivables from non-exchange transactions are understated with an undetermined amount. Additionally, there is a consequential impact on revenue from exchange transactions and accumulated surplus for the period.

Qualified opinion

9. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

11. With reference to note 51 to the financial statements, the municipality is the defendant in several lawsuits. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

12. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Going Concern

13. The Statement of Financial Position indicates that the municipality's current liabilities exceeds its current assets with R13 161 099 as at 30 June 2016. This condition, along with other matters as set forth in the note 56, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Unauthorised expenditure

14. As disclosed in note 45.01 to the financial statements, the municipality incurred unauthorised expenditure of R11 593 555 (2015: R8 269 459) during the year under review due to overspending of votes. The total amount of unauthorised expenditure recorded in the annual financial statements at 30 June 2016 amount to R70 614 246 (2015: R59 020 692).

Irregular expenditure

15. As disclosed in note 45.3 to the financial statements, the municipality incurred irregular expenditure of R5 032 763 (2015: R23 552 712) during the year under review mainly due to non-compliance with supply chain management requirements. The total amount of irregular expenditure recorded in the annual financial statements at 30 June 2016 amount to R55 494 373 (2015: R50 461 610). In addition, the full extent of irregular expenditure is still in the process of being determined.

Fruitless and Wasteful expenditure

16. As disclosed in note 45.2 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R476 354 (2015: R386 504) during the year under review mainly due to interest on late payment of suppliers. The total amount of fruitless and wasteful expenditure recorded in the annual financial statements at 30 June 2016 amount to R1 924 138 (2015: R1 447 784).

Additional matters

17. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

18. The supplementary information set out on pages **X** to **X** does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon

Unaudited disclosure notes

19. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

21. The annual performance report of the municipality was not presented for auditing and consequently my findings below are limited to the procedures performed in respect of the following selected objectives as contained in the strategic planning and performance management documents:

- Objective 1: Provision of Basic Infrastructure.
- Objective 2: Enhance community services.
- Objective 5: Provide accountable local government services to the local community.

22. I assessed the information to determine whether the performance indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

23. The material findings in respect of the selected objectives are as follows:

Compliance with legislation

30. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

31. The municipality did not establish a performance management system as required by section 38(a) of the MSA or the Municipal planning and performance management regulation (8).

32. The performance of the municipality was not assessed during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.

Conditional grants received

33. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant allocation, as required by section 12(5) of the Division of Revenue Act.

34. The municipality did not evaluate its performance in respect of programmes funded by the EPWP Grant allocation, as required by section 12(5) of the Division of Revenue Act.

Financial statements, performance and annual reports

35. The annual performance report was not prepared for the financial period under review, as required by section 46 of the MSA.

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, and revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

37. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).

38. Bid adjudication committees were not always composed in accordance with SCM regulation 29(2).

39. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

40. Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

Human resource management and compensation

41. The competencies of the chief financial officer, head of supply chain, financial and supply chain management officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by Municipal Regulations on Minimum Competency Levels 13.
42. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of section 67(d) of the Municipal Systems Act
43. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the Municipal Systems Act.

Expenditure management

44. Reasonable steps were not taken to prevent unauthorised, irregular, fruitless and wasteful , as required by section 62(1)(d) of the MFMA.

Revenue management

45. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
46. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
47. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
48. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.
49. Accounts for service charges were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

Consequence management

50. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the Municipal Finance Management Act.

51. Irregular, fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the Municipal Finance Management Act.

Internal control

52. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

53. Senior management and the accounting officer did not adequately address internal and external audit findings in a timely manner. The municipality failed to properly analyse control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause.
54. Senior management and the accounting officer of the municipality did not set the correct tone at the top. Senior management did not adhere to internal controls, which resulted in various instances of irregular, fruitless and wasteful and unauthorised expenditure being incurred and other material misstatements in the financial statements, not detected by management.
55. Actions plans to address prior year audit findings were not effectively implemented by the leadership of the municipality resulting in the reoccurrence of material misstatements in the annual financial statements and unresolved matters from prior year audits, affecting the auditor's opinion.

Financial and performance management

56. Weekly and monthly reconciliations were not always adequately prepared for financial items during the year including payroll, payables, receivables and property, plant and equipment. As a result, a number of errors in the reconciliations were identified by the external auditors.
57. The annual performance report was not prepared and submitted for audit. This was due to staff members within the reporting units not fully understanding the performance information requirements for audit purposes.
58. Management did not review the financial statements, to ensure the achievement of fair presentation, this resulted in material amendments to the financial statements.

Governance

59. Leadership does not act on a timeous basis to internal audit's recommendations or reports thereby impacting their effectiveness as an assurance provider to the leadership of the municipality. In addition, internal audit is not fully equipped with adequate human resources,

due to capacity constraints within the unit, this role may negatively impact on the achievement of their annual internal audit plan.

60. The municipality operated without an audit committee for the first quarter of the financial period. The audit committee is imperative to ensure the proper implementation and monitoring of internal control.

Auditor General

Kimberley

30 November 2016



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence